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RHMCSUU/DEPT OF ENERGY WASHINGTON DC
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C O N F I D E N T I A L SECTION 01 OF 02 ABIDJAN 001208

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DEPARTMENT FOR EEB/ESC/IEC/EPC GLENN GRIFFIN

E.O. 12958: DECL: 11/27/2017
TAGS: EPET EINV ECON PGOV IMF IV
SUBJECT: GROWTH OF RESOURCE NATIONALISM - COTE D'IVOIRE ENERGY PARASTATAL PLAYS HARDBALL TO ACQUIRE ASSETS OF U.S. FIRM DEVON ENERGY

REF: A. SECSTATE 150999

¶B. ABIDJAN 1036

Classified By: EconChief EMassinga, Reasons 1.4 (b.d)

¶1. Summary. Because of its lucrative potential, Cote d'Ivoire's oil and gas sector is vulnerable to resource nationalism and signs of the government's willingess to abuse its position are evident. U.S. firm Devon Energy reports the parastatal PETROCI has attempted to strong-arm it into selling its Ivorian assets at below-market value. Devon executives allege that PETROCI has used its personal connections with the government to deflate prices Devon receives for natural gas as well as sabotage efforts of other foreign companies to acquire Devon's Ivorian assets. End Summary.

¶2. (C) Resource nationalism has raised its head in the energy sector, through the manner in which natural gas has been priced and also through efforts by parastatal PETROCI to manipulate gas prices in order to purchase oil and gas production assets owned by foreign firms at below market-value prices (reftel b). U.S. oil and gas firm Devon Energy, the second largest oil and gas producer in Cote d'Ivoire, has been subject to strong arm tactics by PETROCI to sell its Ivorian assets.

¶3. (C) According to a senior Devon executive, the company's contract to provide gas from its off-shore Ivorian fields, negotiated in the mid-1990s when gas prices were substantially lower, fixes natural gas prices at roughly one fourth that of the current price of gas produced by competitors CNR (Canadian) and Foxtrot (a 80/20 percent consortium between French company Bouygue and PETROCI). That contract was signed in 2003 and expires in March of 2008; at the time the contract was signed, global gas prices were lower and the Ivorian government squeezed the company further by prohibiting it from flaring gas associated with oil production; this prohibition forced the company to offer gas at a low price, if it wanted to continue oil production.

¶4. (C) According to the Devon executive, the Ministry of Energy and Mines (MoE, the purchaser of the natural gas) has refused to renegotiate a rise in the purchase price of natural gas to cover the sharp rise in energy costs since 2003 (Note: Devon's crude oil production sharing agreement with Cote d'Ivoire was not affected by the gas price dispute. End Note). This refusal removed the incentive for Devon to proceed with a planned USD100 million upgrade of its infrastructure, which would double oil output and more than double gas production.

¶5. (C) In the spring of 2007, Devon publicly announced its intention to sell its African properties and concentrate on a major new discovery in the Gulf of Mexico. PETROCI quickly made known its desire to purchase Devon's Ivorian assets and production network. Devon executives have told Emboff that PETROCI, as part of its strategy to acquire Devon's assets, pressured the MoE to refrain from renegotiating Devon's gas production contract in order to keep Devon's asking price down. Additionally, once the highest bidder on Devon's Ivorian assets was identified (a Houston-based U.S. firm), Devon executives assert that PETROCI (whose DG, Fadiga Kassoum, has close ties to President Gbagbo) used its influence with the MoE to block visas for the interested firm's due diligence team for four months. This issue was finally resolved in early December but only through the intervention of Devon's corporate headquarters. The due diligence team visited the week of November 19, and traveled to the offshore production platform to review onshore gas treatment and distribution infrastructure, and meet key Devon staff.

¶6. (C) Should Devon's HQ in Houston choose to accept the high bid, its production contract in Cote d'Ivoire gives the government the right to review the potential purchase for technical competency and financial solvency. Devon executives believe this clause could give PETROCI yet another opportunity to exercise undue influence to obtain Devon's assets at a reduced cost.

¶7. (C) For the first time ever, revenue from petroleum and gas production in 2006 outstripped revenue from cocoa and coffee as the country's top income source generator, with the former generating approximately USD 1.35 billion versus USD 1.1 billion in export revenue for the latter. (Note: most of

the revenue comes from crude production.) Sources differ on the current level of crude oil production, but President Gbagbo remarked publicly on October 31 that the country produces 50,000 barrels per day, and hopes to reach 100,000 in 2008-2009, and even 200,000 by 2010. The World Bank, IMF and African Development Bank are conducting three audits of the energy sector to determime actual levels of revenue and their use. One audit is of the state-owned refinery (SIR), a second covers PETROCI, and the third covers the electricity generating industry. All three audits should be complete by the end of 2007. The IFIs' energy audit team spoke to Devon executives before the visa question noted in para 4 was resolved. Post will remain in contact with Devon and keep Department apprised of any developments.
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